

Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.

842
2

FOREIGN GOLD & EXCHANGE RESERVES

REVIEW OF 1967

June 1968

International Monetary and Trade Research Branch • Foreign Development and Trade Division • FGER-4

RESERVES, TRADE, AND ECONOMIC GROWTH

by Gabrielle R. Jolemore
and
George R. Kruer

GLOBAL REVIEW

U. S. DEPT. OF AGRICULTURE
NATIONAL AGRICULTURAL LIBRARY

SEP 18 1968

CURRENT SERIAL RECORDS

Continuing the trend of recent years, the increase in world trade in 1967 exceeded the increase in world liquidity as measured by the change in international reserves (gold, foreign exchange, and reserve position in the International Monetary Fund). The gap was narrowed, however, by a reduction in the rate of increase in world trade while the increase in reserves held steady. The rate of increase in end-of-year reserves was 2 percent for both 1966 and 1967 and on December 31, 1967, reserves amounted to \$73.3 billion (table 1). Between 1965 and 1966, world trade--as measured by exports--increased by 9.7 percent to \$190.0 billion; but between 1966 and 1967, trade increased by only 4.7 percent to \$201.6 billion (table 2).

Even though economic growth resumed during the middle of 1967 in several of the world's major economies (notably Germany, but also the United States and the United Kingdom), this has not yet been reflected in an accelerating rate of increase in world trade. A look at the quarterly changes in world trade, as compared with the same quarters a year earlier, shows that the downtrend in the rate of increase continued through the final quarter of 1967. The increase in

Note: References to "total" world gold, reserves, etc., are exclusive of the Sino-Soviet countries, Cuba, and Indonesia.

Table 1.--International gold and foreign exchange reserves of the Free World 1/

Country and area	Reserves				Gold	Ratio of reserves to imports <u>3/</u>
	Dec. 31,	Dec. 31,	Dec. 31,	Change	component,	
	1965	1966	1967	:Dec. 1966- :Dec. 1967	Dec. 31, 1967 <u>2/</u>	
	-----Million U.S. dollars-----				-----Percent-----	
ALL COUNTRIES, Total <u>4/</u>	70,245	71,615	73,285	1,670	62	35
I. INDUSTRIAL AND OTHER						
DEVELOPED COUNTRIES <u>4/</u>	59,465	60,205	60,965	760	69	36
United States	15,450	14,881	14,830	-51	84	47
Belgium	2,304	2,320	2,530	210	71	32
France	6,343	6,733	6,994	261	88	53
Germany, Federal Republic of	7,429	8,028	8,155	127	65	43
Italy	4,800	4,911	5,463	552	59	53
Netherlands	2,416	2,448	2,619	171	79	30
European Economic Communi- ty (excluding Luxembourg)	23,292	24,440	25,761	1,321	72	44
Austria	1,311	1,333	1,484	151	55	60
Denmark	587	597	535	-62	32	16
Norway	476	527	678	151	10	24
Portugal	1,009	1,122	1,259	137	57	101
Sweden	972	1,027	841	-186	41	17
Switzerland	3,244	3,324	3,555	231	87	85
United Kingdom	3,004	3,100	2,695	-405	48	15
European Free Trade Association	10,603	11,030	11,047	17	59	30
Australia	1,531	1,568	1,429	-139	31	39
Canada	3,027	2,693	2,709	16	53	24
Finland	289	189	184	-5	24	10
Greece	250	273	286	13	54	21
Iceland	54	58	36	-22	14	21
Ireland	410	494	439	-55	8	41
Japan	2,152	2,119	2,030	-89	28	16
New Zealand	97	95	134	39	---	19
South Africa	577	785	744	-41	86	29
Spain	1,409	1,205	1,049	-156	75	32
Turkey	141	131	119	-12	82	17
Yugoslavia	104	115	80	-35	28	5
II. LESS DEVELOPED COUNTRIES <u>4/</u>	10,780	11,415	12,300	885	27	29
<u>Latin America</u>						
Central American Common Market <u>5/</u>	224	221	195	-26	25	(b)18
Argentina	236	216	727	511	14	66
Brazil	505	409	204	-205	28	12
Chile	138	172	126	-46	36	(d)13
Colombia	130	123	118	-5	26	23
Ecuador	46	61	69	8	25	n.a.
Jamaica	96	106	102	-4	7	(a)30
Mexico	537	564	586	22	45	33
Peru	175	155	126	-29	16	18
Uruguay	190	196	174	-22	82	112
Venezuela	843	776	872	96	54	(b)59
<u>Middle East</u>						
Cyprus	82	98	104	6	2	61
Iran	236	255	319	64	55	(a)28
Iraq	234	324	361	37	32	(b)77
Israel	643	621	715	94	10	85

Table 1.--International gold and foreign exchange reserves of the Free World 1/-- Con.

Country and area	Reserves				Gold	Ratio of reserves to imports <u>3/</u>
	Dec. 31,	Dec. 31,	Dec. 31,	Change	component,	
	1965	1966	1967	Dec. 1966- Dec. 1967	Dec. 31, 1967 <u>2/</u>	
	-----Million U.S. dollars-----				-----Percent-----	
<u>Middle East--Con.</u>						
Jordan	140	168	244	76	2	167
Kuwait	124	164	184	20	80	(c)33
Lebanon	251	282	281	-1	69	(d)50
Saudi Arabia	726	747	825	78	11	n.a.
United Arab Republic	193	156	170	14	55	18
<u>Other Asia</u>						
Burma	181	184	155	-29	54	102
Ceylon	73	43	55	12	---	19
China, Republic of	300	337	437	100	19	(b)54
India	599	608	663	55	37	27
Korea	146	245	356	111	3	26
Malaysia	640	681	n.a.	n.a.	n.a.	n.a.
Pakistan	221	200	161	-39	33	16
Philippines	189	194	180	-14	33	16
Thailand	739	924	1,009	85	11	(b)72
<u>Other Africa</u>						
Congo (Kinshasa)	20	22	n.a.	n.a.	n.a.	n.a.
Ethiopia	77	79	65	-14	15	49
Ghana	132	126	100	-26	6	41
Libya	245	339	385	46	19	67
Morocco	99	87	76	-11	45	(b)14
Nigeria	246	227	122	-105	23	25
Sudan	60	57	53	-4	---	(a)39
Tunisia	40	31	31	---	13	11
East Africa <u>6/</u>	143	217	217	---	6	(a)38
Equatorial Africa <u>7/</u>	75	66	39	-27	15	(c)11
West Africa <u>8/</u>	157	173	169	-4	6	n.a.

---Indicates figure is zero or less than half of the last digit shown.

n.a. = Not available

1/ Includes reserve position with the International Monetary Fund.2/ Gold tranche position and lendings to the Fund (reserve position in the Fund) included with gold.3/ Ratio of December 31, 1967, reserves to fourth-quarter 1967 imports (at annual rates) except where denoted by letters which indicate imports for the following periods: (a) third quarter 1967, (b) second quarter 1967, (c) first quarter 1967, (d) fourth quarter 1966.4/ Includes some countries not separately shown.5/ Includes Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.6/ Includes Kenya, Tanzania, and Uganda.7/ Includes Cameroon, Central African Republic, Chad, Congo (Brazzaville), and Gabon.8/ Includes Dahomey, Ivory Coast, Mauritania, Niger, Senegal, Togo, and Upper Volta.Source: International Monetary Fund, International Financial Statistics, April 1968.

Table 2.--Exports and imports of industrial and other high-income countries, 1967

Country and area	Exports (f.o.b.)	Imports (c.i.f.)	Balance	Change in exports, 1966 to 1967	Change in imports, 1966 to 1967
	----Million U.S. dollars----			----Percent----	
WORLD TOTAL	190,000	201,600	-11,600	4.7	4.7
I. INDUSTRIAL AND OTHER DEVELOPED COUNTRIES	150,960	160,270	-9,310	5.5	5.2
United States	31,638	29,128	2,510	4.0	5.0
Belgium-Luxembourg	7,032	7,176	-144	3.0	---
France	11,381	12,381	-1,000	4.5	4.5
Germany, Federal Rep. of	21,748	17,365	4,383	8.0	-3.7
Italy	8,704	9,693	-989	8.3	12.9
Netherlands	7,286	8,336	-1,050	7.9	4.0
European Economic Community	56,151	54,951	1,200	6.6	2.4
Austria	1,808	2,309	-501	7.4	-0.8
Denmark	2,538	3,153	-615	3.4	5.0
Norway	1,736	2,746	-1,010	11.0	14.2
Portugal	685	1,013	-328	10.5	-1.0
Sweden	4,528	4,703	-175	6.1	2.6
Switzerland	3,499	4,117	-618	6.8	4.4
United Kingdom	14,381	17,714	-3,333	-2.0	6.4
European Free Trade Association	29,175	35,755	-6,580	2.2	5.4
Australia	3,480	3,898	-418	10.2	7.2
Canada	11,027	10,972	55	10.4	7.9
Finland	1,555	1,716	-161	3.3	-0.6
Greece	495	1,186	-691	21.9	-3.0
Iceland	97	162	-65	-31.2	1.9
Ireland	788	1,082	-294	15.9	3.6
Japan	10,443	11,662	-1,219	6.8	22.4
New Zealand	993	955	38	-7.7	-12.8
South Africa	1,949	2,943	-994	14.2	16.3
Spain	1,384	3,455	-2,071	10.4	-3.3
Turkey	523	691	-168	6.7	-4.7
Yugoslavia	1,253	1,708	-455	2.5	8.4
Sum of others -- Australia to Yugoslavia	33,987	40,430	-6,443	8.2	9.3
II. LESS DEVELOPED COUNTRIES	39,000	41,300	-2,300	1.6	2.7

Source: International Monetary Fund, International Financial Statistics, April 1968.

trade was 7.5 percent for the first quarter, 5.9 percent for the second, 2.9 percent for the third, and 2.7 percent for the fourth. The decline in the rate of increase had slowed considerably by the fourth quarter, and it is quite likely that data for the first quarter of 1968 will show an acceleration in trade. Monthly data on imports by the resurgent economies early in 1968 indicate this.

Changes in the Composition of International Reserves

The decline in the liquidity ratio (reserves as a percentage of imports) slowed as a result of the slowing of trade and the ratio has stabilized at about 35 percent for the past 2 years. Nevertheless, it remains a source of concern, particularly now that trade seems to be accelerating. Compounding the problem is the changing composition of international reserves. Monetary holdings of gold declined during each of the past 2 years as gold production failed to keep pace with demand by industrial users, hoarders, and speculators. The flow of gold out of monetary stocks amounted to \$1.6 billion during 1967, and

Table 3.--Major changes in monetary gold holdings 1/

Country or institution	:	Changes, December 31, 1966, to December 31, 1967
	:	--Billion U.S. dollars--
United States	:	-1.2
United Kingdom	:	-0.6
Switzerland	:	0.2
Portugal	:	0.1
South Africa	:	-0.1
Mexico	:	0.1
Kuwait	:	0.1
Country holdings, total	:	-1.4
World total, including institutions	:	-1.6

1/ Excluding IMF gold tranche position and lendings to the IMF.

Source: International Monetary Fund, International Financial Statistics, April 1968.

the outflow increased rapidly in the first quarter of 1968 (table 3). This led the United States and the remaining gold pool countries (France withdrew in the middle of 1967) to institute a two-market system for gold. Under the plan, central banks will not buy or sell in the private market but will deal in gold only between themselves at \$35 an ounce. Furthermore, they have disclaimed any need to buy newly mined gold for addition to monetary stocks at this time. This leaves newly mined gold plus any offered for sale by other private holders to meet nonmonetary demand at whatever price will clear the market.

Countries' reserve positions in the International Monetary Fund (IMF) declined by \$0.6 billion last year. But the

third component of international reserves--foreign exchange holdings--rose by \$3.9 billion, thereby providing a net increase in total international reserves of \$1.7 billion. This rise in foreign exchange holdings was one element leading

to the devaluation of the pound sterling in November 1967 and the gold crisis earlier this year. The pound and the dollar are the two reserve currencies and become available for holding as reserves abroad mainly as a result of the balance-of-payments deficits run by the United Kingdom and the United States. Now, many countries prefer to keep their reserves in the form of gold. In the years following World War II, when there was a dollar shortage abroad, a deficit by the United States was considered desirable. But now that the demand for dollars abroad has become satiated, further increases in world liquidity through the medium of U.S. balance-of-payments deficits are not practicable.

The Creation of Special Drawing Rights

Attention has been focused on the creation of a new international reserve asset called Special Drawing Rights (SDR's) in the IMF. SDR's (dubbed "paper gold") are not yet a certainty, but recently great progress has been made in the creation process.

An amendment to the IMF's Articles of Agreement providing for the new reserve asset must be ratified by the IMF's member governments. Assuming approval, the SDR's cannot be expected to join gold, foreign exchange, and present IMF drawing rights as a reserve asset until early in 1969. Furthermore, the distribution of SDR's can be undertaken only if an 85-percent majority of the voting power of participants determines there is a need. Because of the 85-percent vote requirement, implementation of the plan and certain other major features are subject to a veto by the member countries of the European Economic Community if they vote together since they have 17 percent of the vote. The European Economic Community countries are major world traders and as a group they accounted for 30 percent of world exports in 1967 and held 35 percent of world reserves at the end of that period. The United States accounted for 17 percent of world exports and held 20 percent of world reserves.

Any decision to allocate SDR's will also specify a "basic period," usually 5 years, over which they are to be distributed and the percentage rate or rates--uniform for all countries and in relation to their quota--at which they will be distributed.

Operations pertaining to SDR's will be carried out through a Special Drawing Account of the IMF separate from the present operations of the Fund, which will be referred to as the General Account.

The intention is that the new rights will be used for balance-of-payments needs and not just to change the composition of a country's reserves. A participant can use SDR's to meet external obligations or to acquire an equivalent amount of convertible currencies with which to meet them. The currencies to be acquired should come from participants with sufficiently strong balance-of-payments and reserve positions, but they may come from those with moderate balance-of-payments deficits if their reserve position is strong. However, limits are set on the amount of SDR's a participant can be required to hold.

Countries making use of SDR's must make some reconstitution of the drawings, so that a member's average use over a 5-year period does not exceed 70 percent of that country's average net cumulative allocation. Coupled with this

is a requirement that participants should pursue over time a balanced relationship between their holdings of SDR's and their other reserves.

Those making drawings under the new facility will be required to pay a moderate rate of interest, initially $1\frac{1}{2}$ percent, to holders of SDR's. Furthermore, the Rights are subject to an absolute maintenance of gold value. It is hoped that these two features will induce participants to hold SDR's in excess of the required amount.

Price Movements

Declines in the prices of primary products, as evidenced by the World Bank's commodity price index for less developed areas, no doubt contributed to the 1967 slowing in the rate of increase in the value of world trade. Export prices for developed areas did not decline in 1967 but, unlike the preceding 2 years, they did not rise either. This price behavior is directly related to the sluggishness in world demand. The less developed areas' overall export prices fell by almost 10 percent during 1967. The decline started in the latter half of 1966 and became rather pronounced in the early part of 1967, but then began to moderate. What little evidence is available indicates that the decline in prices was arrested in the latter part of 1967 and prices may have then turned upward. This would be in step with the reviving demand in industrialized countries.

As might be expected, the price performance varied considerably between commodities. Prices of rice, cacao, coconut oil, and copra went up between 1966 and 1967, while those of tea, coffee, rubber, burlap, jute, sisal, and groundnuts declined.

AREA AND COUNTRY DATA

The less developed countries accounted for \$885 million of the total increase in country reserves of \$1,670 million during 1967. Although accounting for only slightly more than half of the increase, this figure represents an 8-percent increase in their reserves from 1966, compared with a 1-percent increase recorded by the developed countries. Argentina's \$511 million increase accounted for a substantial portion of the \$885 million increase and far outstripped the increase recorded by any other developing country.

The developed countries accounted for \$7.9 billion (92 percent) of the increase in world exports from 1966 to 1967. This represents a 5.5-percent increase in their exports from the preceding year, compared with a 1.6-percent increase in the exports of the less developed countries. The increase in exports from 1965 to 1966 was more evenly divided. The trade deficit incurred by the less developed countries increased sharply between 1966 and 1967, going from \$1.8 billion in 1966 to \$2.3 billion in 1967.

As would be expected, the import coverage ratio for the less developed countries is below that for the developed countries--29 percent compared with

36 percent. These 1967 rates represent a slight improvement from the preceding year for the less developed countries and a slight worsening for the developed countries.

The rate of growth in real output among the developed countries declined in 1967 and was probably less than that of the developing areas, due in large part to the economic slowdown in the United States, Germany, and the United Kingdom--all of whom carry great weight in the total output of the developed countries.

Industrial and Other Developed Countries

The slowdown in the rate of economic growth in the European Economic Community (EEC) from 3.9 percent in 1966 to 2.5 percent in 1967 had a pervasive influence on the trade totals of the European Free Trade Association (EFTA) as well as those for the EEC (table 4). Since a sizable portion of economic activity in the EEC and EFTA countries is related to international trade, economic changes in the larger countries are quickly felt in the others.

Table 4.--Growth in real output,
selected countries, 1966-68

Country	: 1966	: 1967	: 1968
	: estimate	: estimate	: forecast
	: -----Percent-----		
Belgium	: 2.7	: 2.0	: 3.5
France	: 4.9	: 4.4	: 5.0
Germany	: 2.4	: -0.1	: 5.0
Italy	: 5.5	: 5.9	: 5.5
Luxembourg	: 2.0	: 3.0	: 3.0
Netherlands	: 2.5	: 5.0	: 4.0
EEC	: 3.9	: 2.5	: 5.0
Canada	: 6.5	: 2.8	: 4.0
Denmark	: 3.5	: 2.0	: 3.0
Japan	: 9.7	: 12.5	: 9.0
Sweden	: 2.9	: 3.2	: 3.5
United Kingdom	: 1.3	: 1.0	: 3.0
United States	: 5.8	: 2.6	: 4.5

Thus, the resumption of growth in the EEC during the latter part of 1967, which should produce a growth rate of almost 5.0 percent in the Community during 1968, should also rapidly accelerate trade during 1968. The EEC's exports increased by \$3.5 billion (6.6 percent) from 1966 to 1967, while imports increased by only \$1.3 billion (2.4 percent). This caused a sharp improvement in the trade balance, from a deficit of \$1.0 billion in 1966 to a surplus of \$1.2 billion in 1967.

The opposite effects occurred in EFTA trade, where exports increased by only \$600 million while imports rose by \$1.8 billion. The result was an increase in the trade deficit from \$5.4 billion to \$6.6 billion.

For each of the groups, the large changes were accounted for by one country--Germany in the EEC and the United Kingdom in EFTA.

International reserves of the EEC increased by \$1.3 billion during 1967, while those of EFTA were virtually unchanged although there were large changes between countries. The United States, which lost almost \$600 million in reserves during 1966, lost only about \$50 million in 1967.

The remainder of the developed countries (excluding the United States) maintained a high rate of increase (8.2 percent) in exports during 1967, although it was significantly below the 1966 rate of 14.3 percent. But the 1967 rate of increase in imports (9.3 percent) was slightly above that of exports and resulted in a \$900 million increase in the trade deficit to \$6.4 billion. These countries also experienced a sizable drop in reserves for the second year in a row, losing \$300 million in 1966 and \$500 million in 1967.

As has already been briefly mentioned, Germany, the United Kingdom, and the United States were in the forefront of the international economic scene during the past year.

Germany was there because of the recession in her domestic economy, with a zero or slightly negative amount of growth in total output. This was reflected in a 3.7-percent decline in imports to \$17.4 billion while exports increased by 8.0 percent to \$21.7 billion. As a result, the already high German trade surplus of \$2.1 billion achieved in 1966 more than doubled to \$4.4 billion in 1967.

It must be remembered, however, that Germany's trade surplus is usually offset to a large extent by sizable deficits in other areas of the balance of payments. The two notable areas are tourism and wage remittances by foreign workers in Germany, although the net outflow of both of these declined as a result of the economic slowdown. The latter item was reduced during the year as unemployment mounted with the onset of the recession and a large number of foreign workers returned home.

The reduction in German imports was felt in a number of other countries, among them the United Kingdom--whose exports to Germany began to decline in the first quarter of 1967.

The United Kingdom's devaluation of the pound sterling in November 1967 by 14.3 percent to \$2.40 resulted from several years of pressure on the pound. Attempts to maintain the pound at the old rate of \$2.80 meant sacrificing domestic growth and real output increased by only 1.3 percent in 1966 and 1.0 percent in 1967. Now that devaluation has occurred, the economic outlook for the United Kingdom is much better and growth in real output is expected to reach 3.0 percent in 1968. The United Kingdom's visible trade deficit in March of this year increased to about \$250 million, compared with \$175 million in February. Imports during March were almost unchanged, but exports declined and caused the widening of the deficit. This did not alarm officials, who have maintained all along that the beneficial effects of devaluation on the balance of payments are not expected to become apparent until the latter half of 1968, due to the inherent lag in getting new orders and increasing output for export.

The United Kingdom is backing up devaluation with a rigorous productivity, prices, and income policy, and an austere national budget. Wage and price increases are to be restrained for some time and the new budget, as stated by R. Jenkins, Chancellor of the Exchequer, to the House of Commons, is "concerned with the structural changes in the pattern of economic demand and activity that are required to enable the United Kingdom to take full advantage of devaluation and re-establish a substantial and continuing balance-of-payments surplus."

Although imports (c.i.f.) by the United States increased by 5.0 percent during 1967, this was far below the 19.7-percent increase recorded during 1966-- which reduced our trade surplus from \$4.3 billion in 1965 to \$2.7 billion in 1966. The trade surplus was reduced by less than \$200 million during 1967 since a 4.0-percent increase in exports helped to offset a large portion of the increase in imports. Still, the U.S. balance-of-payments deficit (liquidity basis) increased from \$1.4 billion in 1966 to \$3.6 billion in 1967. This was partly as a result of events associated with the British devaluation but also as a result of the slightly reduced trade surplus and an increase in capital outflows. (For a more detailed discussion of U.S. trade see the section on U.S. AGRICULTURE AND THE BALANCE OF PAYMENTS.)

Italy and Japan, among the major industrialized countries, maintained high rates of increase in both gross national product and imports in 1967; the two of them accounted for over one third of the year's increase in world imports. Japan's 12-percent growth in real output in 1967 was easily the best among the industrialized countries and Italy's 6-percent growth rate was about double the average for all of the members of the Organization for Economic Cooperation and Development. As a result of these high rates of growth, import demand was strong. Japanese imports increased by 22.4 percent to \$11.7 billion in 1967, compared with a 16.6-percent increase in 1966; Italy's imports increased by 12.9 percent to \$9.7 billion in 1967, down from the 1966 increase of 16.4 percent. The rate of increase in the exports of both countries declined in 1967, with the result that their trade deficits increased substantially in relation to 1966. Italy's trade deficit went from \$551 million in 1966 to \$989 million in 1967 and Japan's 1966 trade surplus of \$253 million evaporated into a \$1.2 billion deficit in 1967. Despite these trade-balance trends, Italy gained \$552 million in reserves during 1967 and Japan lost only \$89 million.

Less Developed Countries

The Middle East and Latin America accounted for \$395 million and \$305 million, respectively, of the \$885 million increase in reserves in 1967 by the less developed countries. The Other African Countries' reserves (see table 1) were virtually unchanged and thus the Other Asian Countries accounted for the remainder of the increase.

The 1967 trade data for the less developed countries are still incomplete and therefore only estimates of the overall totals are available. These show a slight (1.6-percent) increase in exports to about \$39.0 billion and a 2.7-percent increase in imports to about \$41.3 billion.

Agricultural production in the less developed countries is estimated to have increased by 7 to 8 percent in 1967. A large portion of the increase is attributable to resurgent production in India following 2 years of drought. Output in the remainder of the less developed countries increased by 4 percent and exceeded the increase in population. Per capita agricultural output in the less developed countries increased by 5 to 6 percent in 1967.

India's increase in output dominated the picture in Asia. Total agricultural production in Africa and West Asia increased by 5.5 percent in 1967, while food production increased by 6.2 percent. The 6-percent increase in

food production in Latin America also exceeded that area's increase in total agricultural output of about 4 percent.

India had disastrous droughts for 2 successive years--1965 and 1966--which severely damaged production of cash crops, particularly cotton and jute. This was accompanied by a recessionary period in which external demand conditions were generally unfavorable for exports. The prospects for an economic recovery in 1968 are very good as a result of a favorable crop year and higher prices for agricultural exports. Income from the agricultural sector accounts for more than 50 percent of total national income.

Exports in 1967 are believed to have increased only slightly over the 1966 level of \$1.6 billion, but this represents a considerable improvement when compared with the 7.2-percent decrease from 1965 to 1966. Imports fell by approximately 4.5 percent in 1967 to \$2.7 billion, after decreasing 10 percent in 1966. The United States continues to be India's leading trade partner, both in exports and imports.

For the Indian fiscal year ending March 31, 1968, national income is estimated to have been at a record level, both in current and constant prices. National income in current prices for the year ending March 31, 1967, rose by 14.7 percent, compared with a rise of only 3.1 percent in the previous year. Real income is estimated to have risen 1.7 percent in 1966/67 in contrast to a decline of 4.7 percent in 1965/66.

India continues to depend heavily on the United States for foreign exchange earnings and for foreign assistance, which thus far has been maintained at a high level. Because of this, foreign exchange reserves have continued their upward trend, reaching \$663 million at the end of 1967. American private investment in India last year, totaling some \$300 million, is estimated to have been at its highest. Although recent U.S. economic restraint actions may reduce the level of official aid, private investment in India is likely to remain strong. The more severe restrictions against American private investment in Europe will favor this, as will India's recent policy of offering very attractive terms for private investment.

In 1967, Mexico maintained a high rate of growth in GNP, estimated at over 7 percent, despite losses suffered from major export crops because of world price declines and adverse weather conditions.

The balance-of-payments outlook is favorable. Mexico is placing considerable emphasis on improving industrial output and expanding trade relations, particularly with Europe, Japan, and the other Latin American countries. In 1967, the foreign trade deficit worsened as the value of exports fell 3.8 percent, in contrast to substantial increases in previous years, and imports increased by 9 percent. Nevertheless, new direct foreign investment is flowing in faster than in 1966. Combined with a substantial rise in earnings from tourism, this produced a \$22 million increase in foreign exchange reserves over the year and a balance-of-payments surplus of \$39.8 million.

In the agricultural sector, the Government is concentrating on improving irrigation and the use of fertilizers, and making other investments in the agricultural infrastructure. Approximately 50 percent of the population is

dependent on farming and cattle raising, although the agricultural sector accounts for only 20 percent of the national product. On the international level, the World Bank has recently approved a loan equivalent to \$25 million for an irrigation project in the Rio Colorado district, bringing the total amount of Bank loans for this type of project to \$71.5 million. The Inter-American Development Bank at the end of 1967 made a loan to finance 40 percent of an agricultural credit program, with the remaining 60 percent to be financed by the Mexican Government. The program is designed to benefit small farmers through medium- and long-term farm loans and secured credits.

Korea's gross national product at constant prices in 1967 rose by 8.4 percent, after a record 13.4-percent growth in the previous year. The slowdown in growth was due primarily to unfavorable weather conditions, which resulted in a poor rice harvest and a 6.1-percent decline in the output of the primary sector. The secondary and tertiary sectors expanded by 21.4 percent and 15.3 percent, respectively. Agriculture was still the largest sector in the Korean economy, accounting for over one-third of GNP and engaging over half of the labor force. Manufacturing was the most dynamic sector, increasing its share of total output from 12 percent in 1962-64 to 18 percent in 1965-67. Production increased rapidly in 1967, but inflation continued to threaten economic stability.

The balance of payments was in surplus by \$122 million in 1966. In 1967, Korea's balance-of-payments position remained strong, with foreign exchange holdings increasing by \$111 million over the year. Although the merchandise trade deficit increased by 45 percent, the net inflow of private loans, largely short-term, and receipts of official grants and loans were more than enough to offset the increased trade deficit. The expansion of Korea's exports has been phenomenal. Over the 5-year period 1962-66, the average annual rate of increase in exports was 42 percent. In 1967, export earnings totaled \$320 million, or about 8 percent of gross national product. Major factors responsible were the growth of domestic industry and the exchange and export promotion measures adopted by the Government.

Imports in 1966 and 1967 increased by 55 percent and 39 percent, respectively, and reached \$996 million in 1967. Hidden within the total is a shift from official aid imports to commercial imports. By 1971, imports are projected to drop to an average annual rate of increase of 8 percent as Korea begins to supply a greater share of its domestic demand with domestic production.

Brazil's gross national product in real terms is estimated to have risen by 5 percent in 1967, compared with a 4-percent increase in 1966. The Government has been giving priority to investment in the agricultural sector; in 1967, agricultural production rose sharply by an estimated 8 to 10 percent, after a poor crop year in 1966. The prospects for 1968 include further growth in the agricultural sector, particularly in certain export crops other than coffee. The country has invested substantial amounts in an attempt to diversify out of coffee.

Brazil's balance of payments, after 2 years of surpluses, was unfavorable in 1967 by about \$200 million. The value of imports rose by 9 percent, the principal increase being in imports of machinery and vehicles. The U.S. share

of Brazil's total imports rose to about 37 percent; however, a large proportion of this continues to be financed by long-term loans. Export earnings fell by 5 percent in 1967, following constant increases since 1962. The decline was mainly the result of lower earnings from raw coffee exports. The resulting trade surplus in 1967 was only \$16 million. The authorities are concerned over the continuing decline of raw materials prices while prices of processed goods are rising steadily.

Brazil's foreign indebtedness rose by about 14 percent from 1965 to 1967. In the agricultural sector a \$40 million loan was extended in 1967 by the World Bank for a project to increase beef, mutton, and wool production in the country. The most recent Inter-American Development Bank loan of \$25 million assisted in financing a program for development of small- and medium-scale industries producing and processing agricultural, forest, and fishery products.

Israel's recovery in investment activity in the latter half of 1967 indicated an improvement in economic activity in the short run. U.S. restrictions on investment abroad are not expected to affect Israel, and new industries are being established in increasing numbers. The recession of 1966 and early 1967 was succeeded by a period of greater profitability and growth. As a result of the Arab-Israeli conflict, there was a dramatic increase in unilateral transfers from abroad and in foreign capital, which substantially offset the foreign exchange costs of re-armament. The devaluation of the British pound was followed by an equivalent devaluation of the Israeli pound, which should help to improve the competitiveness of Israeli producers in world markets.

Israel's balance of payments improved by \$93 million as measured by the increase in gold and foreign exchange holdings. The value of exports in 1967 rose by only 11 percent, as against 17 percent in 1966 and 15 percent in 1965. The decline was primarily due to stagnation in the diamond cutting and polishing industry. On the other hand, the value of imports declined by 9 percent over the year, which resulted in a trade deficit of only \$197 million, compared with \$330 million in 1966. However, the trade deficit may worsen in 1968. Imports are likely to increase as inventories are built up and the economy picks up steam. The United States is both the largest supplier to and the largest purchaser from the Israeli market. The outlook for increased imports of U.S. products is encouraging, despite the higher price of foreign products resulting from Israel's devaluation. Some of the higher costs were offset in part by a reduction in import duties.

The economic outlook for 1968 is highly favorable. Gross national product in 1966 constant prices, which rose by 1.2 percent in 1967, is forecast by Israeli authorities to rise by 6 to 8 percent. Private and public consumption are predicted to rise by 6 and 3 percent, respectively, and investment by 25 percent. The Government is placing greater emphasis on relative price stability through monetary restraint and tight wage policies.

The economy of the United Arab Republic deteriorated markedly following the Arab-Israeli crisis. Foreign exchange reserves have been seriously depleted due to the fall in tourism and the closure of the Suez Canal. A balance-of-payments crisis resulted and the country has been forced to increase imports from bilateral clearing-account countries, that is, Eastern Bloc countries, to conserve convertible foreign currency reserves. Imports totaled \$863 million

in the year ending in June 1967, of which about 33 percent were from clearing-account countries. The U.S. share of Egyptian imports in that year was about 20 percent but is declining appreciably in 1967/68, since Commodity Credit Corporation credits are not available to finance U.S. agricultural imports by Egypt. In 1966/67, 54 percent of Egyptian exports went to clearing-account countries and the percentage is rising. Exports in 1966/67 were \$600 million, creating a trade deficit of \$263 million. In the first half of 1967/68, the trade deficit jumped to an annual rate of \$454 million. In response to this shortfall in exports, the IMF approved the U.A.R. request for a compensatory financing drawing of \$23 million early in 1968. The U.A.R. has had serious difficulties in meeting payments on its external indebtedness, which is currently estimated at over \$1 billion in convertible currencies. There is hope for improvement, however. Domestic agriculture is likely to benefit from the construction of the Aswan Dam. Of the acreage to be irrigated by the dam, 17 percent is already under cultivation and losses caused by flood damage have been reduced. Cotton, the main product under irrigation, accounted for 55 percent of exports in 1966, but only 44 percent in 1967 because of leaf worm damage.

The Republic of China (Taiwan) continued its substantial economic growth in 1967. Gross national product in constant prices grew by 8.9 percent, and both exports and imports registered sizable increases over 1966. The sum of exports and imports is equal to 40 percent of GNP. Exports, the major factor in Taiwan's growth, expanded by an estimated 15 percent, with exports to the United States rising 8.5 percent. Imports increased by an estimated 37 percent, and imports from the United States rose by a phenomenal 54 percent, although Japan is still Taiwan's leading trading partner. These preliminary estimates are based upon foreign exchange settlements. Increased imports of American machinery and equipment reflect Taiwan's intent to develop the industrial sector, particularly those industries requiring medium and heavy equipment and modern technology. During 1967, gold and foreign exchange reserves rose by \$100 million, compared with increases of \$37 million and \$3 million in 1967 and 1966, respectively. Gross official holdings totaled \$437 million at the end of 1967, equivalent to over 6 months of 1967 imports. The relatively large acquisition of gold since the middle of 1966 was intended to increase confidence in Taiwan's foreign exchange system.

In the agricultural sector, Taiwan needs to diversify her products, especially processed products for export. Frozen seafoods and vegetables are among the better prospects. The development of animal production and a dairy industry also offers better opportunities for U.S. agricultural exports. The United States is already the largest supplier of wheat to Taiwan and there is growing interest in the purchase of soybeans and feed grains--particularly corn, which was recently placed on the list of permissive imports.

The expected rate of capital inflow into Taiwan during 1967/68 is \$100 million annually. In general, it has been the Government's policy to attract as much foreign capital as possible on reasonable terms although short-term suppliers' credits have been discouraged. Before 1965, Taiwan depended heavily on U.S. economic aid, but since then it has been discontinued except for P.L. 480 programs and Export-Import Bank loans, which approximate commercial terms.

The economy of Zambia has expanded rapidly since independence 3 years ago, despite the pressures brought about by the United Nations sanctions placed against Rhodesia following its declaration of independence in November 1965. Zambia not only had close trade and economic ties with Rhodesia, but its principal outlet to the sea was through Rhodesia. The copper industry, in particular, was affected by the dislocation of established routes. Nevertheless, Zambia has adapted itself to the situation by expanding its trade relations with other countries and finding new trade routes.

Copper is the most important Zambian product, providing the bulk of Government revenue and accounting for over 90 percent of export earnings last year. Because of strikes and a temporary shortage of coal needed to smelt concentrates, copper output fell by 1.3 percent in 1967. However, the price of copper on world markets recovered strongly in the latter half of the year and total revenues continued to be high. The agricultural sector is having growing pains--agricultural production accounts for less than 10 percent of gross domestic product. Tobacco accounts for 90 percent of agricultural exports, yet production declined by 22 percent in 1967 due to the emigration of expatriate farmers and a shift toward corn production.

Zambia's trade with the United States has increased. In 1967, imports from the United States, primarily machinery and transport equipment, increased by about 21 percent. Exports to the United States rose from less than \$1 million in 1966 to \$33 million in 1967.

Zambian authorities are aiming at reducing the dependence upon a single export commodity and have laid the groundwork for a major and diversified industrial advance. Secondary industry now includes sugar refining, brewing, clothing, paints, cement products, cigarettes, radios, vehicle tires and tubes, and vehicle assembly.

U.S. AGRICULTURE AND THE BALANCE OF PAYMENTS 1/

by George R. Kruer

U.S. agricultural exports on a balance-of-payments basis declined by \$481 million during 1967 to \$6.4 billion, after having shown a strong upward trend so far this decade (table 1). Exports declined during each quarter of 1967, compared with the same quarters a year earlier. The largest decline--11.6 percent--occurred in the third quarter, but the decline was reduced to 9.8 percent in the fourth quarter. The decline was about 3 percent in each of the first two quarters of 1967. Available data on agricultural exports for the first quarter of 1968 show an increase of 2 percent over the first quarter of 1967. This is a hopeful sign that the decline is over and that agricultural exports are on the uptrend, but one quarter's data are not sufficient proof of this.

1/ For a discussion of the concepts and methods underlying the data presented in this section, as well as comparable annual data back to 1960, see Kruer, George R., U.S. Agriculture and the Balance of Payments, 1960-67. ERS-Foreign 224, U.S. Dept. Agr., Apr. 1968. This report will be updated in future issues of Foreign Gold and Exchange Reserves.

Agricultural imports in 1967 also declined, but the \$36 million drop was much less than the \$481 million decline in agricultural exports. As a result, the trade surplus declined from \$2,378 million in 1966 to \$1,933 million in 1967. Imports increased in the first and fourth quarters and declined in the second and third quarters of 1967, compared with the corresponding quarters a year earlier. In the first quarter of 1968, agricultural imports increased less than exports (0.5 percent and 2 percent, respectively), which means the trade balance also improved. Commercial agricultural exports--that is, total exports less those financed by the U.S. Government with international grants and credits--followed much the same quarterly pattern during 1967 as total agricultural exports. The 8.7-percent (\$121 million) decline in noncommercial exports during the year was somewhat larger than the 7.0-percent decline in total exports.

Noncommercial agricultural exports during 1966 and 1967 were high in the first, second, and fourth quarters, but in each year there was a sizable decline in such shipments during the third quarter (table 2). The third-quarter declines were particularly noticeable in Public Law 480 shipments.

The commercial agricultural trade balance of \$660 million in 1967 was barely more than enough to offset the \$641 million deficit incurred in commercial nonagricultural trade and provide a \$19 million overall commercial trade surplus. The bulk of agriculture's trade surplus was earned in the fourth quarter and no quarterly deficits have occurred during the past 2 years.

On the other hand, the \$647 million fourth-quarter deficit of the nonagricultural sector was about equal to its deficit for the year and the other three quarters recorded offsetting surpluses and deficits.

To get a measure of agriculture's contribution to the balance of payments instead of its contribution to the balance of trade **only**, it is necessary to add to commercial exports and the commercial trade balance the dollar returns or savings resulting from noncommercial exports. These returns occur when Government credits used to finance exports are repaid, as under the dollar credit sales provision of Public Law 480 and the Export-Import Bank, and when inconvertible local currencies acquired by the Government from the sale of agricultural commodities are used instead of dollars by U.S. agencies abroad. These returns amounted to \$199 million in 1965, \$169 million in 1966, and \$328 million in 1967 (table 3). The returns in each quarter of 1967 were higher than the returns in each of the corresponding quarters of 1966. Most of the returns have been in the form of Title I, Public Law 480 local currencies used by U.S. agencies. These uses declined by \$40 million in 1966 to \$130 million, but increased sharply in 1967 to \$222 million. On a quarterly basis, the uses steadily increased from \$25 million in the second quarter of 1966 to a high of \$87 million in the third quarter of 1967, and then fell back to \$47 million in the fourth quarter of 1967.

Repayments on dollar credit sales have been rising each year as more sales take place under this program and amounted to \$59 million in 1967. The bulk of the repayments usually occur in the fourth quarter of the year since many of the annual payments are due at the end of the year, and some spill over to the first quarter. The first repayments of Export-Import Bank credits in 3 years occurred in 1967 in the amount of \$47 million. This is the result of the increase in the Bank's financing of agricultural commodity exports because of tight money conditions.

Table 1.--U.S. merchandise trade, balance-of-payments basis, 1965-67

Period and commodity group	Exports (f.o.b.)			Imports (f.o.b.)	Trade balance	
	Total	Noncommercial <u>1/</u>	Commercial		Total	Commercial
----- Million U.S. dollars -----						
Total:						
1965	26,244	2,941	23,303	21,472	4,772	1,831
1966	29,168	3,146	26,022	25,510	3,658	512
1967	30,463	3,464	26,999	26,980	3,483	19
1966 I	7,073	753	6,320	5,919	1,154	401
II	7,361	816	6,545	6,271	1,090	274
III	6,968	721	6,247	6,528	440	-281
IV	7,766	856	6,910	6,792	974	118
1967 I	7,589	919	6,670	6,629	960	41
II	7,915	917	6,998	6,608	1,307	390
III	7,144	791	6,353	6,419	725	-66
IV	7,815	837	6,978	7,324	491	-346
Agricultural:						
1965	6,229	1,348	4,881	4,087	2,142	794
1966	6,869	1,394	5,475	4,491	2,378	984
1967	6,388	1,273	5,115	4,455	1,933	660
1966 I	1,652	356	1,296	1,155	497	141
II	1,649	417	1,232	1,128	521	104
III	1,627	278	1,349	1,110	517	239
IV	1,941	343	1,598	1,098	843	500
1967 I	1,605	319	1,286	1,180	425	106
II	1,594	399	1,195	1,066	528	129
III	1,439	251	1,188	1,064	375	124
IV	1,750	304	1,446	1,145	605	301
Nonagri-cultural:						
1965	20,015	1,593	18,422	17,385	2,630	1,037
1966	22,299	1,752	20,547	21,019	1,280	-472
1967	24,075	2,191	21,884	22,525	1,550	-641
1966 I	5,421	397	5,024	4,764	657	260
II	5,712	399	5,313	5,143	569	170
III	5,341	443	4,898	5,418	-77	-520
IV	5,825	513	5,312	5,694	131	-382
1967 I	5,984	600	5,384	5,449	535	-65
II	6,321	518	5,803	5,542	779	261
III	5,705	540	5,165	5,355	350	-190
IV	6,065	533	5,532	6,179	-114	-647

^{1/} Total noncommercial exports are equal to the amount of U.S. merchandise financed by the U.S. Government with international grants and credits and which involve no direct dollar outflow from the United States. Noncommercial agricultural exports are from table 2 and noncommercial nonagricultural exports are the residual.

Source: ERS statistics and Survey of Current Business, U.S. Department of Commerce.

Table 2.--Noncommercial U.S. agricultural exports, 1965-67 1/

Item	1965	1966	1967	1966								1967				
				I	II	III	IV	I	II	III	IV	I	II	III	IV	
----- <u>Million U.S. dollars</u> -----																
Total noncommercial agricultural exports.....	1,348	1,394	1,273	356	417	278	343	319	399	251	304					
By program:																
Title I, P.L. 480 sales for local currencies.....	914	840	732	213	249	190	188	198	235	137	162					
Title I P.L. 480, long-term dollar credit sales 2/.....	145	234	185	61	73	37	63	36	39	35	75					
Title II, P.L. 480 grants 2/	263	230	257	66	80	30	54	42	105	60	50					
Mutual Security (AID) disposals.....	26	47	33	15	15	9	8	14	7	9	3					
Export-Import Bank, financed from own resources.....	---	43	66	1	---	12	30	29	13	10	14					

--- Zero or less than \$500,000.

1/ Those financed by the U.S. Government with international grants and credits.

2/ The Food for Peace Act of 1966, effective January 1, 1967, shifted dollar credit sales from Title IV of the old act to Title I and combined under Title II the grants previously made under Titles II and III. The new designations are shown here.

Source: P.L. 480 Program (all titles): Office of Business Economics, U.S. Department of Commerce; Mutual Security and Export-Import Bank programs: Based on data from AID and the Export-Import Bank.

Table 3.--Agriculture's contribution to the U.S. balance-of-payments, 1965-67

Item	1965	1966			1967		
		I	II	III	IV	I	II : III : IV
		-----Million U.S. dollars-----					
Commercial agricultural exports	4,881	5,475	5,115	1,296	1,232	1,349	1,598 1,286 1,195 1,188 1,446
Plus: Realized dollar returns and savings on noncommercial agricultural exports	199	169	328	52	33	33	51 60 104 108
Title I, P.L. 480, foreign currencies used by U.S. agencies	170	130	222	37	25	32	36 43 45 87 47
Title I, P.L. 480 principal and interest repayments on dollar credit sales <u>1/</u>	27	39	59	15	8	1	15 13 15 3 28
Mutual Security (AID) foreign currencies used by U.S. agencies	2	---	---	---	---	---	---
Export-Import Bank principal and interest dollar repayments	---	---	47	---	---	---	14 33
Total agricultural dollar earnings--actual plus realized dollar returns on noncommercial exports	5,080	5,644	5,443	1,348	1,265	1,382	1,649 1,342 1,255 1,292 1,554
Less: Agricultural imports	4,087	4,491	4,455	1,155	1,128	1,110	1,098 1,180 1,066 1,064 1,145
Net contribution to the balance of payments attributable to agricultural merchandise trade	993	1,153	988	193	137	272	551 162 189 228 409
---	Zero or less than \$500,000. 1/ Formerly under Title IV, see footnote 2 of table . 2/ Liquidity basis.						

Source: Based on data from the Commodity Credit Corporation, Export-Import Bank, and the Office of Business Economics, U.S. Department of Commerce.

OFFICIAL BUSINESS

Table 4.--U.S. balance of payments,
1965-67

Period	Balance on liquidity basis	Balance on official reserve transactions basis
	---Million dollars---	
1965	-1,335	-1,304
1966	-1,357	225
1967	-3,575	-3,398
1966 I	-47	403
II	-149	-385
III	-695	405
IV	-466	-198
1967 I	-238	-1,280
II	-223	-689
III	-1,211	-39
IV	-1,903	-1,390

Source: Department of Commerce, Survey of Current Business, June 1967 and March 1968.

ter of the year. On the official reserve transactions basis, the balance of payments was in a surplus position in the amount of \$225 million in 1966. But even on this basis, there was a larger worsening of the balance in 1967 to a deficit of \$3.4 billion. The first and the fourth quarters both showed substantial deficits of about \$1.3 billion.

In the absence of agriculture's net contribution, the 1967 deficit on a liquidity basis would have been almost \$1.0 billion larger and the fourth quarter deficit would have been larger by just over \$400 million.

These increasing returns on noncommercial sales helped to offset the fall in commercial exports during 1967 so that the decline in agriculture's gross contribution to the balance of payments in 1967 was moderate. The same is true for agriculture's net contribution, that is, the gross return less agricultural imports. The decline in the commercial trade balance from 1966 to 1967 amounted to \$324 million, but the decline in agriculture's net contribution to the balance of payments for the same period was only \$165 million.

The United States has run a balance-of-payments deficit on the liquidity basis for many years, but until last year it had been irregularly declining since 1960. In 1967, it jumped to \$3.6 billion from \$1.4 billion in 1966 (table 4). Over half of the deficit (\$1.9 billion) occurred in the fourth quar-